

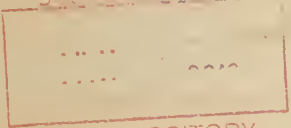
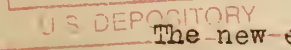
UNITED STATES DEPARTMENT OF AGRICULTURE
Bureau of Agricultural Economics
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THE COTTON SITUATION

Summary


The new export subsidy here is an outstanding element in the current cotton situation, according to the Bureau of Agricultural Economics. Exports of American cotton are extremely small whereas there has been an active movement of foreign cotton in recent months. Stocks of "free" American cotton are small. Cotton consumption continues heavy in domestic mills and is being fairly well maintained in foreign countries.

Domestic cotton mill consumption in June, of 578,000 bales, was nearly one-third larger than a year earlier and the second largest for the month in 11 years. Mill activity was also apparently well maintained through the first 2 weeks of July, assuring an increase of more than 1 million bales in domestic consumption for the 12 months ended July 31 as compared with the preceding 12 months. Total consumption for the 1938-39 season will be the second largest for any season since 1928-29.

In foreign countries cotton mill activity and consumption, adjusted for seasonal variation, apparently remained about unchanged in June and early July. In Europe, mill activity was sustained more than usually well for this part of the season, with Government orders accounting for a substantial share of the activity. In the Orient, cotton mill consumption in Japan and China continued well below a year earlier. In India, on the other hand, mill consumption was apparently running about the same as a year ago, but with that exception was the largest for the period in history.

The 114,000 bales of American cotton exported in June were only two-thirds of the unusually small exports of June last year, and were less than

one-third of the preceding 5-year June average. During the first 3 weeks of July exports continued small, indicating a total for the season of less than 3,400,000 running bales (equivalent to less than 3,600,000 bales of 500 pounds), the smallest exports for any season since 1881-82.

During the 11 months ended June, exports of Egyptian cotton were slightly less than in the two preceding seasons, but were the fourth largest on record. From August through May, exports from Brazil were one-third larger than in the corresponding months of 1937-38 and the largest for any comparable period on record. Up to the end of May, exports from British India were 57 percent larger than from August through May 1937-38 and only 7 percent less than the 10-year average August through May exports.

The domestic cotton export subsidy program, effective July 27, provides for a payment of $1\frac{1}{2}$ cents per pound net weight on all lint cotton grown in the United States and exported on or before July 31, 1940, if such exports are delivered for export or sold for export on or before June 30, 1940. Provisions are also made for subsidy payments on all articles or products containing not less than 50 percent by weight of cotton fiber. It is expected that the subsidy, along with other factors, will result in a marked increase in exports during 1939-40 as compared with the exceptionally small exports of the season now drawing to a close.

PRICES

Domestic prices decline but continue above a year ago

From June 1 to July 15 the daily average price of Middling 7/8 inch cotton in the 10 designated markets varied between 9.32 and 9.59 cents, the latter being the highest point reached since August 1937. By July 22, however, the price had declined to 9.05 cents, the lowest level for more than 2 months, but by July 26 had recovered to 9.47 cents. In July last year, the prices in these markets averaged 8.83 cents.

As previously indicated, the relatively small "free" stocks of American cotton, prospects for an export subsidy, and improved general business con-

ditions were important factors contributing to the substantial rise in cotton prices from April to early June and to the maintenance of relatively high prices throughout June and early July. It is quite possible that the recent weakening in prices was partly a reflection of the fact that the new crop is now being ginned and will soon begin moving in volume. As larger quantities of the new crop are ginned, the supply of cotton in regular marketing channels will become much larger in relation to current needs than during the immediate past, assuming that little or none of the new crop moves into Government-loan stocks.

The official announcement with respect to the export subsidy program on July 23 is perhaps responsible for the recovery in domestic prices on July 24 and 25. It also probably contributed to the advance in new crop futures contract prices in relation to prices of spot cotton. On July 26 the spread between the closing price of the five active new crop futures months, October through May, and Middling 7/8 inch cotton in the New Orleans market ranged between 0.33 and 0.81 cents per pound, whereas on June 15 new crop futures ranged from 0.98 to 1.49 cents below the average spot price.

American cotton at Liverpool declines in relation to most foreign growths

In the first week of June the Liverpool quotation for American Middling Fair Staple at 5.91 pence per pound reached the highest point for nearly 2 years. From this point prices declined to about the 5.80 level, near which they remained through the 21st of June, from which they dropped further as the subsidy prospects became clearer. In the first 2 weeks of July the quotations for American Middling Fair Staple at Liverpool fluctuated between 5.50 and 5.62 pence, a substantial decline as compared with early June. Quotations of other growths on the spot also declined from the point reached in early June but most growths have become somewhat higher in relation to American Fair Staple since June 9. Discounts for Brazilian of Fair grade increased from 35 to 40 penny points under American Middling Fair Staple for Sao Paulos between June 9 and July 21 and from 70 to 75 for North-erns. Indian Oomras No. 1 Fine narrowed their discounts from 180 to 150 points during this 7-week period. In the longer staple category the premiums on Egyptian Giza 7's widened from 102 to 112 penny points and on Egyptian Uppers from 9 points on June 9 to 50 penny points on July 21.

As may be seen from the accompanying table, however, the price of American cotton was still relatively high compared with the prices of other growths. On a percentage basis, the price of American cotton was higher in relation to Indian on July 14 than for several years, but by July 21 was the lowest since June 1. The price of Egyptian Uppers has shown a rather steady advance in relation to the price of American Middling Fair Staple and on July 21 was higher on a relative basis than at any time since April. Brazilian Sao Paulo, on the other hand, has shown comparatively little change in relation to American since June 9.

Table 1.-Cotton: Spot price per pound, specified growths at Liverpool, specified periods

	American		Indian		Egyptian		Brazilian	
			Av. 3 types 1/		F. G. F. Uppers		Fair, Sao Paulo	
Season,	Middling:	Low :	: As a % :		: As a % :		: As a % :	
nonth	7/8	midd-	: of Ameri-		: of Ameri-		: of Ameri-	
or day	inch	ling	Actual:	can	Actual:	can	Actual:	can
				2/		Middling		Middling
10-yr. av.	Cents	Cents	Cents	Percent	Cents	Percent	Cents	Percent
1927-28 to								
1936-37	14.50	13.60	10.88	78.3	17.12	117.9	14.08	97.7
1936-37	14.62	13.16	11.07	79.8	17.40	119.0	14.12	96.6
1937-38	10.31	8.78	8.02	83.9	13.10	126.7	10.18	98.7
1938-39								
Aug.	9.76	8.44	7.38	81.0	12.30	126.0	9.46	96.9
Sept.	9.59	8.29	7.07	79.1	12.27	128.0	9.27	96.7
Oct.	10.25	8.96	7.22	75.0	13.03	127.1	9.78	95.3
Nov.	10.04	8.81	7.28	77.3	12.63	125.8	9.63	95.9
Dec.	10.02	8.56	7.16	77.0	11.89	118.6	9.54	95.1
Jan.	10.10	8.64	7.13	75.9	11.50	113.9	9.61	95.2
Feb.	10.02	8.55	7.02	75.6	11.56	115.4	9.53	95.1
Mar.	10.17	8.71	6.94	73.3	11.58	113.8	9.68	95.2
Apr.	9.67	8.21	6.98	78.2	10.90	112.7	9.19	95.0
May	10.55	8.97	7.46	76.6	11.08	105.0	9.83	93.2
June	11.94	9.38	7.63	74.6	11.47	103.9	10.18	92.2
June 1 3/	10.71	9.05	7.61	77.0	11.42	106.6	9.74	90.9
June 9	11.26	9.60	7.77	74.5	11.43	101.6	10.57	93.9
June 16	11.23	9.58	7.68	73.7	11.53	102.6	10.36	92.2
June 23	11.04	9.38	7.53	73.8	11.51	104.2	10.16	92.0
June 30	10.96	9.30	7.53	74.3	11.49	104.8	10.08	92.0
July 7	10.94	9.28	7.57	74.8	11.68	106.8	10.16	92.9
July 14	10.77	9.11	7.30	72.2	11.53	107.1	9.99	92.8
July 21	10.20	8.54	7.10	75.8	11.18	109.6	9.42	92.4

Compiled from reports of the Liverpool Cotton Exchange except for the last 3 weeks which are from cables to the Bureau of Agricultural Economics or from reports of the New York Cotton Exchange. Prices were reported in pence per pound and converted to cents per pound at current rates of exchange.

1/ Includes Fully Good Broach, Fine Oomra #1, and Fully Good Sind.

2/ Average of American Middling and Low Middling.

3/ Friday, June 2, was a holiday.

EXPORTS

United States exports smallest in nearly six decades,
foreign exports unusually large

The 114,000 running bales of American cotton exported in June were only 64 percent as large as the unusually small exports of June last year and 29 percent as large as the preceding 5-year June average. When reduced to equivalent bales of 500 pounds gross weight, the June figure was the smallest for the month since 1890. For the 11 months, August through June, domestic exports totaled 3,220,000 bales as compared with 5,403,000 a year earlier and an average of 7,553,000 bales during the corresponding period in the 10 years ended 1932-33. The total for the first 11 months of the 1938-39 season was, by a considerable margin, the smallest for any year for the period since prior to 1888-89, the first year for which exports in running bales are available. In terms of bales of 500 lb. bales, the total for the 11 months ended June 1939 was the smallest for any like period since 1881-82, or in 57 years (see table 2).

During the first 23 days of July, exports continued small, totaling only about 62 percent as large as exports in the corresponding period last year. While the export subsidy which becomes effective on July 27 may speed exports to some extent during the last few days of July, the total for the month will still be exceptionally small and total exports for the season are likely to be between 3,350,000 and 3,400,000 running bales.

From August to June, exports of Egyptian cotton of 1,640,000 bales of 478 lbs. were slightly less than in the corresponding period of either of the two preceding seasons but, with the exception of these two seasons and 1933-34, they were the largest for the period on record. During the 10 months ended May 1939, exports of cotton from British India were 57 percent larger than in the corresponding period last season but slightly less than the preceding 10-year average for the corresponding months. Exports of cotton from Brazil in the 10 months ended May were about one-third larger than the previous record high exports for these months established in each of the two preceding seasons, even though the 1938-39 Brazilian crop was 200,000 bales less than the record crop of 1937-38. In May, exports from Brazil were approximately two-third larger than the previous record high exports.

Subsidy of 1.50 cents per pound expected to stimulate
exports in 1939-40

Partly as a result of the extremely low exports of the 1938-39 season and the unusually high prices of American cotton in relation to foreign growths, a cotton-export subsidy program has just been inaugurated. The program, effective July 27, 1939, provides for the payment of 1.50 cents per pound net weight on lint cotton grown in the United States

and exported on or before July 31, 1940, provided such exports are delivered for export, or sold for export on or before June 30, 1940. Provisions are also made for payments on "any article or product which contains not less than 50 percent by weight of cotton fiber."

This export subsidy is expected to contribute to a marked increase in exports during the 1939-40 season. It seems quite likely that, in the absence of any major foreign military conflict, exports of American cotton in 1939-40 would show a material increase over the exceptionally small exports of 1938-39 even without an export subsidy. This is because of the exceptionally small foreign stocks of American cotton, somewhat smaller stocks of foreign cotton, and the possibility that foreign production may be smaller than in 1938-39. The subsidy, however, should result in a materially more favorable price of American cotton in relation to foreign growths in foreign markets as well as a slightly lower absolute level of foreign prices than would exist without the subsidy. Both of these factors should encourage foreign countries not only to maintain their stocks of American cotton but to build them back up to more reasonable levels.

DEMAND AND CONSUMPTION

UNITED STATES: Mill activity well maintained

United States mill consumption of 578,000 bales in June was nearly one-third larger than in June last year and the second largest in 11 years. Trade reports indicate that during the first three weeks of July mill activity and cotton consumption were well maintained even though most of the manufacturers of print cloth signed an agreement in late June to restrict their output to at least 75 percent of "normal production for 3 months" between then and the end of September.

For the 11 months ended June 1939, domestic mills consumed 6,334,000 bales of cotton including approximately 113,000 bales of foreign cotton. Assuming the daily rate of consumption in July shows about an average decline in relation to June, consumption for the 12 months ended July will total a little over 6,800,000 bales, approximately 6,700,000 bales of which will be American cotton. These are each a little more than 1 million bales larger than in 1937-38. In 1936-37 domestic mills consumed 7,950,000 bales. In no other years since 1928-29 has consumption exceeded 6,351,000 bales.

Domestic manufacturers' sales of cotton textiles during June and the first three weeks of July apparently exceeded output so that most mills are said to be in fairly good position with respect to stocks and unfilled orders. During the week ended July 21, print cloth sales spurted and mill stocks were further reduced. Prices of the more active cloth constructions advanced which, together with the decline in cotton prices, widened the manufacturing margin for these cloths.

Table 2.- Cotton: Exports from specified countries, average 1923-24 to 1932-33, and seasons 1936-37 to date

Country of origin and destination	June				as a % of 1938	August to June				as a % of 1937-38
	10-yr.av.: 1923-24 to 1932-33	1937	1938	1939		10-yr.av.: 1923-24 to 1932-33	1936-37	1937-38	1938-39	
	1,000 running bales	1,000 run. bales	1,000 run. bales	1,000 run. bales		1,000 running bales	1,000 run. bales	1,000 run. bales	1,000 run. bales	
	Per cent	Per cent	Per cent	Per cent		Per cent	Per cent	Per cent	Per cent	
United States to	68	28	17	15	88.2	1,748	627	645	307	47.6
Germany	56	51	22	10	45.5	1,698	1,120	1,521	394	25.9
United Kingdom:	24	9	8	3	37.5	801	653	711	335	47.1
France	36	40	19	9	47.4	645	387	483	261	54.0
Italy	13	0	1	1/	--	269	1/	1	16	1600.0
Spain	10	5	6	2	33.3	180	152	184	86	46.7
Belgium	12	22	16	24	150.0	196	288	233	215	92.3
Canada	52	44	30	28	93.3	1,211	1,522	621	846	136.2
Japan	20	1/	1/	2	--	270	14	22	84	381.8
China	49	31	57	21	36.8	535	553	982	676	68.8
Other coun. ...	340	230	176	114	64.8	7,553	5,316	5,403	3,220	59.6
Total										
Egypt to	478 lb.	478 lb.	478 lb.	478 lb.	cent	478 lb.	478 lb.	478 lb.	478 lb.	cent
United Kingdom:	35	23	33	30	90.9	542	597	543	533	98.2
France	13	10	13	15	115.4	180	199	224	183	81.7
United States :	7	2	1	1	100.0	160	60	34	33	97.1
Germany	7	7	12	23	191.7	100	133	194	198	102.1
Italy	7	12	8	6	75.0	93	109	110	102	92.7
Japan	4	2	7	12	171.4	62	207	78	146	187.2
British India..	2	5	6	4	66.7	24	86	127	80	63.0
Other coun. ...	15	26	26	28	107.7	221	377	358	365	102.0
Total	90	87	106	119	112.3	1,382	1,768	1,668	1,640	98.3
British India to:		May					August to May			
Japan	92	202	68	70	102.9	1,100	1,733	559	843	150.8
Italy	26	20	5	6	120.0	255	173	76	68	89.5
China	35	1	2	151	750.0	252	10	55	423	769.1
Belgium	19	29	10	8	80.0	157	255	100	94	94.0
Germany	21	13	10	11	110.0	164	148	104	132	126.9
United Kingdom:	19	32	31	48	154.8	149	413	214	284	132.7
France	14	14	10	15	150.0	119	106	70	117	167.1
Other coun. ...	21	37	33	29	87.9	136	209	206	210	101.9
Total	247	348	169	333	200.0	2,332	3,047	1,384	2,171	756.9
Brazil to		May					August to May			
Japan		16	37	82	221.6		91	102	288	282.4
United Kingdom:		21	11	17	154.5		232	155	171	110.3
Germany		10	37	36	97.3		225	374	223	59.6
France		7	12	16	133.3		41	48	104	216.7
Italy		4	3	6	200.0		44	8	50	625.0
Netherlands ..		3	3	6	200.0		20	12	27	225.0
Belgium		3	3	2	66.7		23	20	20	100.0
Other coun. ...		15	7	24	342.9		66	55	148	269.1
Total	2/ 3	79	113	189	167.3	2/ 80	742	774	1,031	133.2

Compiled from official sources. 1/ Less than 500 bales. 2/ Not available by countries.

EUROPE: 1/ Activity well sustained

Mill activity in the European cotton industry in June and early July was sustained more than usually well for this part of the season in the more important of the free-exchange countries and in Italy; and in fact at high levels also in Germany though seemingly more than ever restrained by the acute shortage of raw material. Government orders for the equipment of armed forces and other defense services including in some cases the establishment of reserves, obviously accounted for a substantial share of the activity, though in Italy and to a lesser degree in France improving export trade was a factor. Generally increasing economic activity flowing out of large scale expenditure for rearmament appears to be building up purchasing power which, barring emergencies, should sooner or later implement home-market demand in a number of countries, though under present uncertain conditions consumer spending seems to be somewhat restrained. Except possibly in Germany, the situation seems to have been characterized rather generally by a disposition to insist on early deliveries of goods on order and to hold new-season mercantile business in suspense pending clarification of the raw-cotton price situation, particularly as it may be affected by a subsidy on American exports. This feature, coupled with pressure for early deliveries of Government orders, tends still to accentuate mill activity in the summer months and to divide off, more than usually, the old season from the new. In the raw cotton markets current import buying of old-crop cotton was practically at a standstill. However, with stocks of American cotton available for purchase now nearly exhausted, a potential demand of considerable force exists, subject of course to the influence of subsequent international political developments. Some provisional commitments by American exporters for new-crop shipments have been made though actual contracts are understood to have been awaiting announcement of the export subsidy. The total volume of such business is believed to be much less than is usual at this time of year. Import buying of other growths especially those most competitive in point of quality with American, appears to have declined also under the foreshadow of the American subsidy plans.

United Kingdom

Except for the nearer approach to the new season, no very marked change in the British situation was evident in June and early July from that reported in May. Mill operations in June and early July continued at not less than 80 percent of normal in both the spinning and weaving branches, which was around the best levels of the current season and at a high level for that period. Export sales of textiles showed little improvement, but home market civilian buying on the other hand is thought to have about equaled its usual summer volume, while Government buying superimposed on civilian-trade demand provided the support necessary to sustain activity at its relatively favorable level. In late June and early July, mercantile business appeared to slacken with easing tendencies in raw cotton prices in Liverpool. Apprehension with

1/ Based largely on a report prepared by Agricultural Commissioner, Arthur W. Palmer, London, England, and the office of the Agricultural Attache, Berlin, Germany. Report mailed from London July 12.

respect to international affairs both in Europe and in the Far East also exercised a dampening influence, although initiative appears to have become much more hardened to risks of this kind than it was even a few weeks earlier. Altogether the month may be accounted a good one.

There appears, however, still to have been much more than the usual disposition to treat the new season as something apart from the old, owing to the peculiar uncertainties of the price situation. The great bulk of the goods orders on hand at the end of June is said to have been for delivery within July, August and September, beyond which business remained largely in suspense. To a considerable extent, business calculations for the new season are apparently awaiting conclusive information of the export subsidy in terms of the amount per pound and the methods of application. The opinion is quite general that should a flexible rate plan be adopted, imports, would likely cause a continuation of hand-to-mouth import buying due to fear of increases in the rate from time to time which might produce losses or at least destroy profits on earlier purchases. Meanwhile Lancashire complains still of inability to obtain desired qualities to cover spinners' immediate requirements.

Arrangements for collaboration between the cotton textile industry and the Government in the allocation of orders of defense materials have now been set up and on June 16 agreement was reached on the question of prices. Orders in addition to those previously placed were expected to be given at once for some 20 million yards of goods to be followed with others from time to time. Actually a considerable part of Lancashire's operations were at that time concerned with the rearmament program. In certain trade circles, Government orders are regarded as being of a nonrecurring kind, the absence of which is likely to be severely felt after the next 3 months or so when for the most part deliveries should be completed. Elsewhere the opinion is expressed that a considerable amount of pent-up business is awaiting only the pending adjustments in the price structure - within the industry as well as in raw cotton - and that "it would take little to make Lancashire very busy."

In the raw cotton markets a good spot business for the time of the year is reported, estimated Liverpool sales of actual cotton averaging close to 40,000 bales a week, mostly, however, of growths other than American. Import buying of old crop American has continued at a standstill pending a clarification of the price situation, but in spite of the uncertainties still shrouding the export subsidy shippers were estimated to have provisional commitments outstanding at the end of June for around 250,000 bales of new crop cotton, the definitive contracts awaiting announcement of the subsidy terms to insure eligibility for subsidy benefits. Ordinarily at this time of year the volume of forward business is said to be somewhat larger.

At the phenomenally cheap prices at which cottons of the longer-staple types have been selling in Liverpool and Manchester. British mill takings of this group have increased in recent months from about the usual 30 percent of the total to around 35 percent. Forwardings of American cotton to British

mills, which in June averaged 17,773 bales (478-pound net equivalent), were almost exactly one-third of total forwardings - the smallest share of the total so far recorded in this century and probably the smallest since the Lancashire cotton famine of the 1860's.

Imports between June 2 and 30 (in 478-pound equivalent bales) are calculated as being American 13,044, Brazilian 30,848, East Indian 52,303, Egyptian and Sudan (Sakel) 47,157. In terms of running bales, total imports of American cotton into Great Britain for the first 11 months of the present season were 69 percent (1,100,000 bales) less than a year earlier while imports of Brazilian, East Indian, Peruvian, Egyptian, and Sudan Sakel showed increases of from 3 to 50 percent.

British port stocks in running bales of American cotton on June 30 were reduced to 219,000 bales as against 730,000 at the end of June 1938 but stocks of all kinds were 712,000 as against 1,130,000 a year before, with increases in Peruvians, Egyptians, Sudan Sakels and East Indians.

Among the events of general interest within the month has been the conclusion of the agreement between the Governments of the United States and of the United Kingdom for the barter of American cotton for rubber, the stocks to be held as defense reserves by the respective countries. The transaction calls for a minimum of 600,000 bales of American cotton and rubber to an equivalent value, but provides in the event of a subsidy on cotton exports for a proportionate increase in the amount of cotton supplies. While some concern was at first expressed in the trade as to the barter aspect of the transaction, this seems to have been allayed by the assurances contained in the agreement that the commodities are to be held impounded in each case for a period of 7 years unless earlier required to meet the necessities of national emergencies, thus avoiding in the meantime any interference with the normal course of trade. As to the purely defensive feature of the transaction responsible opinion seems to be altogether favorable, published comment in a number of instances urging the creation of similar reserves of cottons of other growths, the shipping routes of which are more susceptible of interruption.

Germany

Activity in the German textile industry was maintained at seasonal levels during June. This followed a slight rise in production in May after the marked dropping-off which occurred in March. The home demand for cotton yarns and fabrics continues to be strong in Germany and in many instances is not being anywhere nearly satisfied.

German consumer goods production during the past 6 years of upswing has lagged behind the increase in production goods. Furthermore, textiles have lagged behind the total consumer goods group. The index of textile production in the first quarter of 1939 stood at 110.5 percent of 1928, while the index for total consumer goods production was 116.1. Total consumer goods production for the first quarter of 1939 is officially placed at

10 percent above a year earlier, while the increase in textile production amounted to only 2.5 percent. For the cotton industry alone the increase was still less - viz., 1.8 percent. Yet, considering the raw material difficulties, cotton textile expansion from 1932 to 1938 was remarkable enough, the production index of the cotton industry having risen from 83.1 percent (of 1928) in 1932 to 107.3 percent in 1938 2/ - an increase of 29 percent. In the circumstances, this achievement has only been possible by large-scale substitution of artificial and reclaimed fibers for raw cotton. And in fact, a further expansion in the production and utilization of cell-wool, and further restriction in the utilization of raw cotton in the production of textile goods, are contemplated.

Production of cell-wool in 1939 is expected to reach about 200,000 metric tons, or the equivalent of over 900,000 bales of 478 pounds net, on a pound-for-pound basis, compared to a production of 154,000 metric tons in 1938, and 102,000 metric tons in 1937. It is estimated that about 80 percent of the German cell-wool production replaces raw cotton rather than wool and other textile fibers.

The utilization of raw cotton, on the other hand, was further restricted by a decree which became effective on July 1, 1939. It prohibited the production and utilization of materials containing cotton for certain types of goods, such as women's clothing, linings of garments, cloth used for upholstering, curtains and wall-coverings, flags, ties, ribbons, etc.

The decree thus regulating the use of cotton, synthetic fibers and mixtures of natural and artificial fibers is entitled "The Decree concerning the Production and Utilization of Products containing Cotton" and specifies that manufacturers are obliged to mark products (1) containing cotton which, in the sense of the new order, means all fibers, textiles, and textile goods which contain genuine cotton, cotton waste, linters or shoddy. It is further stated that (2) manufacturers of such products are required to put into their confirmations of orders and bills, as an essential portion of such papers, a notation indicating whether or not the products mentioned therein contain cotton. The second paragraph of the decree prohibits, as already stated, the production and utilization of materials containing cotton for certain types of goods. It is interesting to note that among the "Exceptions" to the general regulations under the new decree is the statement that "The regulations contained in this decree do not apply to goods which are intended, directly or indirectly, for export." It may be pointed out, in this connection, that manufacturers of goods for export receive nearly all of the cotton which they may require and, in addition, they may receive as a premium additional quantities of raw cotton up to 50 percent of the weight of the finished cotton goods which have been exported over a certain period.

Within the framework of the system of priorities for raw materials and labor, favoring work on fortifications and in industries manufacturing

2/ 110.5 in the first quarter of 1939, compared to 108.5 in the first quarter of 1938.

war supplies or implements and goods which the authorities consider more essential than goods for civilian consumption, a reduction of the labor force employed in the textile industry is now being contemplated.

"Rationalization" of the production process is to offset this loss, yet the situation that might result would be grave in view of the fact that a shortage of workers in the textile industry has been more pronounced than ever in recent months.

France

Indications from France are that the resumption of textile buying noted in May broadened out in the first half of June during which there was considerable fresh activity. In the latter part of the month the market is said to have turned quiet but there seems to have been a feeling that for the month as a whole yarn and cloth trade was quite satisfactory. Spinners are said to have orders in early July which assured operation at the existing high rate well through September. In fact, in a review of official statistics one would have to look back to 1930 or an even earlier year to find the spinning branch in a more favorable position from the point of view of operations, stocks and unfilled orders than it has been in recent months. On the subject of profits, however, there was still much complaint. Weavers are reported also to have had their production quite generally sold through September and some makers of wide goods are said to have been unable to promise delivery before about the end of the year.

In France, as elsewhere, however, there appears to have been the same general tendency to await settlement of the American cotton subsidy question before making extensive commitments for the new season's campaign, particularly transactions which have to be done at fixed prices, though in this respect weavers seem to have been somewhat less sensitive to the raw cotton price factor than spinners. Spinners, however, had bought some American cotton on call at a relatively cheap basis, business of this kind for June being estimated in Havre at about 50,000 bales. In the Normandy and eastern districts spinners' requirements for the new season were believed to have been covered with call contracts up to about 35 percent by the end of June and in the North to something less than 25 percent, though there were indications that with Egyptians and Sudans at their narrow premiums, requirements of these growths were covered proportionately much further ahead than those of other growths while requirements of American were covered least.

Business in raw cotton in Havre is reported to have been quiet through most of June with the trade waiting clarification of the American export subsidy program. On this account import buying of American was said to have been practically at a standstill and of competitive growths also much restrained.

Italy 4/

Some further improvement in the Italian cotton trade appears to have taken place during June, when the fear of war had seemingly lost most of its former deterrent effects. The purchase of foreign raw cotton was made easier by the reopening or extension of lines of credits by American and Swiss banks, although the issuance of import permits was closely controlled and other conditions delayed the placing of extensive orders for future delivery. The cotton mills are said to have been kept going at practically their full capacity working on orders for both the foreign and the domestic trade, indicating an improvement over preceding months. Foreign sales for cotton goods were aided by the reopening of markets in Argentina following the signing of the new commercial agreement between the two countries on June 1 and appear to have been maintained at satisfactory levels in other important foreign markets. The domestic demand for cotton goods is said to have improved considerably owing to the disposition of old stocks of higher priced goods and offerings of new materials made from cheaper cotton at more attractive rates. Retail dealer stocks appear to have been reduced during the preceding months and to require renewal.

Italian imports of raw cotton during the first 5 months of the year were 33 percent smaller and 40 percent less valuable than during the same period of the preceding year. Exports of cotton products on the other hand were about 8 percent higher than 1 year before with the result that the balance of this trade was materially in favor of Italy whereas 1 year before imports of cotton and cotton goods were more than 100 million Lire 5/ more costly than the exports of cotton goods.

No very great use seems to have been made during June of the reopening by a large American bank of extensive credit lines to Italian cotton importers. Import permits for cotton were mostly restricted to minimum requirements and most sales were chiefly for immediate delivery from stocks held in Italian ports. The uncertainty as to the prospective American cotton export subsidy deterred importers from placing orders for forward delivery. Sales of American were also lessened to some extent by the low prices at which Brazilian, Egyptian and Peruvian cottons were quoted; it is said that offers of most of these varieties had already discounted an export subsidy of 1 cent per pound on American cotton. Italian spinners, however, would prefer American cotton at prices anywhere near those of foreign cotton of similar quality.

The newly organized State-controlled cotton import company, called the Soc. Anon. Approvvigionamento Cotoni of Milan, issued its first circular on June 9, 1939, calling for offers of exotic cottons. The capital of the company is announced as Lire 5 million. Opinion now seems to be that the new concern, whatever its potentialities may later prove to be, will not for the present play a major role in Italian cotton buying.

Raw cotton quotas for domestic consumption allotted during June amounted to a total of 37 million Lire, equivalent to an authorization for

4/ Information received from the American Consul General at Milan.

5/ One dollar equals Lire 19 at the current rate of exchange.

buying somewhat less than 40,000 bales of raw cotton at existing prices, compared to an average monthly importation of cotton for both domestic and export manufacturing purposes of 45,000 bales in the first 5 months of 1939 and of more than 67,000 bales in the first 5 months of 1938. By a Ministerial Decree dated May 29, 1939, Italian textile mills were ordered to take delivery of 7,400 metric tons each year of "cottonized hemp" fiber which they are expected to mix with other fibers in the production of textiles for consumption within Italy.

Activity of cotton spinning mills during April (the latest period for which official data are available) was slightly below the month previous, while weaving mills were more active than during March, though somewhat below the levels of April 1938.

Italy: Cotton spinning mill statistics

Month	: Spindle hours worked :		: Mill consumption by spinners of :			
	percent of 1934 average :		Raw cotton		: Cotton waste & other fibers	
	1938	1939	1938	1939	1938	1939
	Percent	Percent	Metric tons	Metric tons	Metric tons	Metric tons
Jan.	125.3	114.8	12,389	11,996	5,474	5,909
Feb.	122.7	115.9	12,549	11,833	5,480	5,987
Mar.	117.6	116.5	13,803	13,284	5,992	7,274
Apr.	115.6	115.7	11,793	10,638	4,781	6,415

Italy: Cotton weaving mill statistics

Month	: Loom hours worked :		: Yarn consumption :					
	: pct. of 1934 av. :		Cotton		Art. fiber		Other fiber	
	1938	1939	1938	1939	1938	1939	1938	1939
	Percent	Percent	Metric tons	Metric tons	Metric tons	Metric tons	Metric tons	Metric tons
Jan.	125.3	119.0	---	7,261	---	2,733	---	1,870
Feb.	126.2	118.5	7,434	6,700	3,011	2,933	1,835	1,960
Mar.	126.8	120.3	7,876	7,231	3,267	3,410	1,881	2,182
Apr.	124.6	122.6	7,449	6,354	2,959	1/3,300	1,508	1/2,003

1/ Estimated.

The fact that compulsory admixture of substitute fibers is limited to goods for domestic use obviously gives to the export of cotton goods added weight as a determinate of raw cotton consumption. On this account Italian cotton interests find it particularly gratifying to see an improvement in cotton goods exports during the first 5 months of 1939. An advance of

8 percent in the value of such exports over the corresponding period of 1938 was chiefly due to larger exports of yarns, while exports of fabrics were smaller. The increase in yarns exports is largely accounted for by substantial shipments to Yugoslavia and Rumania, countries which found their supplies from former Austria and Czechoslovakia seriously curtailed, as a result of domestic German requirements. Shipments of cotton goods to Argentina, previously much reduced, have recently shown a pick-up following the conclusion on June 1, 1939 of an Italo-Argentine trade agreement.

ORIENT: Consumption continues high in India,
low in China and Japan

It is tentatively estimated that cotton mills in India consumed about 240,000 bales (of about 400 pounds net weight) of Indian cotton in June, according to the New York Cotton Exchange Service. This is approximately the same as in June last year but with that exception was the largest for the month in history. For the 11 months, August through June, Indian mills used 2,831,000 bales of Indian cotton compared with 2,693,000 bales a year earlier which was the previous record high for the period.

In Japan cotton mill consumption in June apparently again remained about the same as in the preceding months of the 1938-39 season or around 200,000 bales. In each of the 10 months ended June, cotton consumption by member mills of the Japanese Cotton Spinners' Association ranged between 198,000 bales (of 478 pounds net) and 224,000 bales. During the corresponding months of the preceding season, consumption ranged between 244,000 and 340,000 bales. In June and July last year, consumption declined to 228,000 and 217,000 bales respectively, so that consumption in recent weeks compares much more favorably with a year earlier than in the months prior to June. The rate of mill consumption in Japan during June and July, however, like most of the preceding 10 months was probably the smallest for any like period in 7 or 8 years. For the 1938-39 season as a whole, total cotton consumption by Japanese mills probably will be reported at something like $2\frac{1}{2}$ million to $2\frac{3}{4}$ million bales (American in running bales and foreign in bales of 478 pounds). This compares with a total of $3\frac{1}{2}$ million bales consumed in the previous season and a peak consumption of approximately 3,900,000 bales in 1936-37. Consumption of American cotton seems likely to total about 800,000 bales during the year ended July 1939. In the preceding 12 months Japanese mills are estimated to have consumed 1,200,000 bales of American cotton and in the 1933-34 season a total of 1,857,000 bales.

Mill consumption in China, including Manchuria, during June was about the same as for the two previous months or about 145,000 bales. This was considerably more than that of a year earlier but probably about three-fifths as large as in the months immediately prior to the outbreak of the military conflict with Japan in July 1937. Those mills operating in Shanghai were running at full capacity during June and the middle of July but curtailed activity was expected in the near future, according to a radiogram received from the Consulate General at Shanghai on July 12.

ACREAGE, PRODUCTION, STOCKS AND SUPPLY

United States acreage again exceptionally small

The acreage of cotton in cultivation in the United States on July 1, as estimated by the Crop Reporting Board, was 24,943,000 acres. This is three-tenths of 1 percent less than the 25,018,000 acres on July 1, 1938 and 32 percent less than the 1928-37 average. Assuming an average percentage abandonment during the years prior to 1909 - the first year for which estimates of acreage in cultivation on July 1 are available - the estimate for the current year is the smallest since 1899.

The first estimate of probable 1939 United States production will be released August 8.

Foreign acreage may show slight decline,
substantial declines in Egypt and China

The 1,687,000 acres in cotton in Egypt this year as recently estimated by the Egyptian Government is 90 percent less than that of 1938. This is the smallest Egyptian cotton acreage since 1919, with the exception of 1921, 1927, and 1932, during which years there were laws restricting the acreage planted to cotton in Egypt. According to a report from American Consul C. Paul Fletcher at Alexandria, the reduced 1939 plantings are the result of the poorer yield and lower prices cotton growers obtained from the 1938 crop and also the difficulty experienced in marketing the crop. Yields per acre in Egypt in 1938 were 7 percent below the average for the preceding 5 years. It is quite possible, therefore, that higher yields might result in a 1939 crop equal to or in excess of that of 1938, despite the reduction in acreage.

Plantings in central China this year were about 20 percent below those of last year, according to a radiogram received from the American Consulate in Shanghai. This is due largely to extensive fighting and to Chinese government restrictions. In northern China, dry weather has seriously affected the cotton crop in most areas. Drought conditions prevail over large areas of the 5 north China provinces, though it was reported that some sections of Shantung province were slightly relieved by moderate rainfall toward the end of June. A small percentage of the farmers have well irrigation and will be able to obtain a crop in spite of the dry weather. In central China, weather has been generally favorable.

With smaller cotton acreages in Egypt and China, and also perhaps in some of the other foreign cotton producing countries, it is not unlikely that the 1939-40 total foreign cotton acreage may show a slight decline even though the acreage in some countries is likely to show moderate increases.